

Science and Technology Center in Ukraine

Notes to Financial Statements

Note 1 - Summary of Significant Accounting Policies

The Science and Technology Center in Ukraine (STCU) is an inter-governmental organization which receives financial support from the United States of America, Canada, and Sweden. Ukraine is also a party to the international agreement which established the Center, and provides funding for facilities in support of the STCU. Funds contributed by the donor parties (United States of America, Canada, and Sweden) are used to employ former weapons scientists and engineers on peaceful scientific projects.

Any donor party may withdraw from the international agreement six months after giving written notification to the other parties. The STCU is not aware of any actual or planned withdrawal notifications. The European Union has verbally informed the STCU that they intend to accede to the STCU agreement during the month of February 1998. The European Union accession will not result in an increase in the 1998 administrative budget; however, it will result in a redistribution of this budget to the funding parties. The formula to be used to redistribute this budget has not been determined.

Uzbekistan has acceded to the STCU Agreement as a recipient party on December 16, 1997. The accession of Georgia to the STCU Agreement as a recipient party has also been approved by the STCU's Governing Board on December 16, 1997. Georgia's accession will be effective when all required documentation is received by the STCU from the Government of Georgia. The accession of Uzbekistan and Georgia to the STCU Agreement will not result in an increase in the 1998 administrative budget, nor will it affect the distribution of the funding of this budget to the donor parties.

The STCU also receives funds from partners, which are governmental and non-governmental entities that have received approval from the STCU's Governing Board to fund projects through the STCU. Partner funds are disbursed in the same manner as funds contributed by the donor parties.

The accompanying financial statements have been prepared on an accrual basis using accounting principles recognized by the International Accounting Standards (IAS) Committee, which is a comprehensive basis of accounting other than Generally Accepted Accounting Principles (GAAP) recognized in the United States of America. GAAP requires organizations to include in its financial statements a Statement of Activities (in lieu of a Statement of Revenue and Expenses), which is designed to provide information about changes in an organization's net assets. IAS does not require such a statement and, accordingly, one is not included herein. Other differences between international standards and the United States standards do not materially impact the presentation of financial information.

The preparation of financial statements in accordance with IAS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the financial statements. Actual results could differ from those estimates.

The significant accounting policies followed are described below to enhance the usefulness of the financial statements to the reader.

Cash and Cash Equivalents

The STCU maintains its books and records in US dollars per agreement of the founding parties. Uninvested cash is maintained at minimum levels. Funds are maintained off shore in US dollar accounts until required for use in Ukraine. Funds in Ukrainian financial institutions are maintained in US dollar and local currency accounts. Funds not required for STCU administration or projects are invested in US dollar money market accounts.

Fixed Assets and Depreciation

Property and equipment acquired by the Center for administrative operations consists of vehicles, office furniture and equipment, including computer hardware and software and communications devices. All commitments and expenditures for administrative equipment are made in accordance with the Board-approved annual budget. Fixed assets and capital equipment purchased for STCU administration and for projects are charged to expense in the year of purchase, without regard to useful lives. This is contrary to IAS. However, the STCU believes this accounting practice best matches the revenues contributed by the parties with related expenses.

Taxes

Terms and conditions in the international agreement which established the Center exempt the STCU from taxes on funds received from the donor parties, including any interest earned on such funds, or on other property that might normally be subject to taxation under Ukrainian law.

Foreign Currency Transactions

The STCU accomplishes a number of transactions in local Ukrainian currency, which is highly inflationary. Revenue and expenses in local currency are recorded in US dollars based on the daily exchange rate. Gains or losses resulting from foreign currency transactions are charged to the administrative operating budget in the period incurred.

Project Revenue and Costs of Projects

The STCU accounts for project revenues and costs using the percentage of completion method, whereby project revenues and associated costs are recognized commensurate with project performance and the measurement of costs incurred. Projects are performed on a cost

reimbursable basis, with a ceiling price specified in the project agreements. During project performance, the STCU retains 50 percent of the allowable overhead for the individual projects in accordance with the project agreements. The balance is paid to the project recipient at the completion of the project. At project completion, any funds received in excess of actual costs are credited back to the contributing party.

Note 2 - Cash

Donor party contributions not currently needed for operations are invested off shore in US dollar denominated money market accounts. Interest earned is credited to the contributing parties. In 1997 the STCU operated with six regular accounts and four money market accounts in Bankers Trust, New York: one administrative account, three donor party contribution accounts, one account for partner contributions, and one clearing account which maintains a zero balance.

The STCU also maintains a US dollar and a local currency account with Joint Stock Bank "Bankers House" in Kiev, Ukraine. All funds in these accounts are donor party funds. The local currency account operates as a clearing account for accomplishing transactions in local currency in Ukraine. As required by Ukrainian law, the STCU also maintains a local currency account with the National Bank of Ukraine for funds contributed by the Government of Ukraine to the STCU for Center facilities.

At year end, operating balances in the various bank accounts maintained by the STCU are as follows. The Bankers Trust New York - Administration, - Canada, - Sweden, and - USA balances shown below represent the regular account totals and the money market account totals.

	1997	1996
Bankers Trust New York - Administration	\$ 156,457	\$ 65,400
Bankers Trust New York - Canada	665,787	580,146
Bankers Trust New York - Sweden	609,674	1,092,821
Bankers Trust New York - USA	7,980,331	3,561,167
Bankers Trust New York - Partners	28,500	0
Bankers Trust New York - Clearing	0	0
Bankers House Kiev - Administration	94,710	115,846
Bankers House Kiev - Projects	1,209,831	620,938
Ukrainian National Bank Kiev - Facilities	0	2,561
Petty Cash	9,594	10,000
Total	<u>\$10,754,884</u>	<u>\$6,048,879</u>

The operating cash balances at year end by party are as follows:

<u>Contributing Party</u>	<u>1997</u>	<u>1996</u>
Canada	\$ 842,891	\$ 727,656
Sweden	738,106	1,192,427
Ukraine	0	2,562
United States	9,144,387	4,126,234
Partners	29,500	0
Total	<u>\$10,754,884</u>	<u>\$6,048,879</u>

Note 3 - Receivables

Receivables due from contributing parties represent amounts committed but not yet transferred to the STCU for the next year's administrative operating budget. The amounts due from the parties for the next year's administrative budget is reduced by the excess of the current year's administrative budget over the administrative expenses and interest income. In addition to receivables pertaining to the next year's administrative budget, the United States has outstanding receivables pertaining to project commitments at the end of the current year. The receivables by party are as follows:

<u>Contributing Party</u>	<u>1997</u>	<u>1996</u>
Canada-Administrative Budget	\$ 41,825	\$166,389
Sweden-Administrative Budget	46,318	0
Ukraine-Administrative Budget	0	0
United States-Administrative Budget	387,670	597,601
United States-Projects	289,585	0
Total	<u>\$765,398</u>	<u>\$763,990</u>

Note 4 - Restricted Designated Contributions - Administrative

Restricted designated contributions represent amounts contributed by the Government of Ukraine in the current year for the next year's facility rent, utilities, maintenance, and security. Use of these funds is permanently restricted by Ukraine to facility expenses. These funds are contributed in lieu of Ukraine providing facilities for STCU occupancy.

Note 5 - Unrestricted Designated Contributions - Administrative

Unrestricted designated contributions - Administrative represent the amounts approved by the STCU Board of Governors at the December Board of Governor's meeting for the next year's administrative operating budget.

Note 6 - Unrestricted Designated Contributions - Projects

Unrestricted designated contributions - Projects represent the total amount committed on signed projects, less costs incurred to date on projects. At year end, the designated contributions for projects by contributing party are as follows:

<u>Contributing Party</u>	<u>1997</u>	<u>1996</u>
Canada	\$ 583,720	\$ 613,336
Sweden	578,042	348,354
United States	6,699,615	3,699,606
Partner	16,000	0
Total	<u>\$7,877,377</u>	<u>\$4,661,296</u>

Note 7 - Unrestricted Undesignated Contributions

Unrestricted undesignated contributions represent amounts contributed by contributing parties which have not been designated for the administrative operating budget or projects.

<u>Contributing Party</u>	<u>1997</u>	<u>1996</u>
Canada	\$ 70,380	\$ 0
Sweden	7,228	625,430
United States	1,437,289	0
Partners	10,500	0
Total	<u>\$1,525,397</u>	<u>\$625,430</u>

Note 8 - Interest Income

Interest is earned on funds deposited in accounts at Bankers Trust New York and Joint Stock Bank "Bankers House" in Kiev, Ukraine. Interest earned in the current year is credited to each Party's receivable for the next year's administrative operating budget.

Note 9 - Grants - Administrative

The STCU provides basic pay and additional grants to its local national staff members. The grants are paid for work at an international organization, and to promote the enhancement of required work skills.

Note 10 - Excess (Deficiency) Revenue over Expense

The excess of the designated 1997 administrative operating budget of \$1,082,700 over the administrative expenses plus earned interest has been credited to each party's receivable for the 1998 administrative operating budget in accordance with the agreed-to share of participation in recurring and nonrecurring expenses.